

Message Text

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ACTION NEA-16

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AMCONSUL MADRAS

C O N F I D E N T I A L NEW DELHI 6164

E.O. 11652: N/A

TAGS: ENRG, IN

SUBJ: OFFSHORE OIL CONTRACTS -- LACK OF INTEREST BY MAJORS

REF: A) NEW DELHI 6063; B) STATE 092307

SUMMARY: THE INFORMATION PROVIDED BY THE MAJOR OIL COMPANIES IS DATED AND INCORRECT AND WE STRONGLY RECOMMEND AGAINST IT BEING PASSED ON TO INDIAN EMBASSY. WE DO RECOMMEND A MORE GENERAL APPROACH TO THE GOI AND FOLLOW UPS WITH US OIL COMPANIES TO CORRECT CERTAIN MISAPPREHENSIONS. END SUMMARY.

1. WE READ THE MAJOR OIL COMPANIES' COMMENTS CONTAINED IN REF B WITH A MIXTURE OF HORROR AND FASCINATION. CROSS CULTURAL COMMUNICATION IS INDEED DIFFICULT AND IT OFTER TAKES A LONG TIME FOR A FACT, ESPECIALLY AN AMENDED FACT, TO CATCH UP TO A CONCEPT.

2. LET'S START WITH A CLEAR ERROR, THE IDEA THAT PAYMENT FOR OIL WOULD BE IN RUPEES AT A "LOUSY" PRICE. SO FAR WAS WE KNOW THERE HAS NEVER BEEN ANY ATTEMPT BY THE GOI TO PAY COMPANIES IN RUPEES. THE TWO US GROUPS THAT HOPE TO SIGN CONTRACTS NEXT WEEK WILL BE PAID IN DOLLARS (REF A). AS TO THE PRICE, IT WOULD
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BE DIFFICULT TO DESCRIBE EITHER OF THE TWO PRICING FORMULAS

BEING CONSIDERED AS UNREASONABLE OR "LOUSY".

3. THE SECOND PROBLEM RAISED WAS WHETHER OIL COULD BE EXPOJQED. IN APPARENT CONTRAST TO US COMPANY VIEWS (REF B), THE GOI'S GUIDELINE STATES THAT THE FOREIGN COMPANY WORKING UNDER A "PROFIT-SHARING" AGREEMENT WOULD BE REQUIRED "TO DELIVER A PORTION OF (ITS) SHARE OF PROFIT OIL FOR MEETING INDIGENOUS CRUDE OIL REQUIREMENTS OF INDIA AT A NOMINAL PRICE". GOI PETROLEUM MINISTRY CHIEF OF EXPLORATION AND DEVELOPMENT, GOPAL RAMASWAMY STATES THAT PRELIMINARY DISCUSSIONS WITH CITIES SERVICE, AND OTHER LARGE INDEPENDENTS, REVEALED THAT US COMPANIES WOULD AGREE TO THE SALE OF "COST OIL" TO THE GOI AND WOULD NEGOTIATE THE PRECENTAGE (E.G. 60-70 PERCENT) OF THE "PROFIT OIL" TO SOLD IN INDIA. THEY WOULD THEN INSIST THAT THE COMPANY BE PERMITTED TO SELL THE REMAINDER TO CUSTOMERS OF ITS OWN CHOOSING. THE TWO US GROUPS WHICH EXPECT TO SIGN CONTRACTS NEXT WEEK (REF A) WERE NOT INTERESTED IN EXPORTING OIL SINCE THEY NEITHER OWN TANKERS, OPERATE REFINERIES, ETC.

4. THE THIRD PROBLEM IS MUCH MORE GENERAL -- INCONSISTENT NEGOTIATORS, UNHEALTHY SOCIALISTIC ATMOSPHERE, ETC. -- AND COMES DOWN TO A LOCK OF TRUST IN GOI COMPETENCE AND GOOD WILL. IT WOULD BE FUTILE TO MAINTAIN THAT THERE IS NOT A CONSIDER-ABLE BASIS FOR SUCH A VIEW. RPTM OUR RECOMMENDATION IS THAT THE DEPARTMENT BE VERY SELECTIVE IN PASSING ON THE SUBSTANCE OF THE COMPANIES' COMMENTS TO THE INDIAN EMBASSY. WE RECOMMEND NO REFERENCE TO PRICE BUT A CONCENTRA-TION ON A DIPLOMATICALLY WORDED VERSION OF THE SECOND AND THIRD ISSUES. IT WOULD NOT BE AMISS TO POINT OUT THAT THERE IS AN ABSENCE OF CONFIDENCE ANDNKHAT ANEW INDIAN INITIATIVE VXY BE REQUIRED TO INTEREST MAJOR OIL FIRMS.

6. A FLAT STAZKMENT THAT ADHERENCE TO A POLICY PERMITTING ALLOCATION OF A PORTION OF "PROFIT OIL" TO THE FOREIGN COMPANY MAY BE NECESSARY, AND IT MAY BE EMPHASIZED THAT THE VOLUME OF OIL ALLOTTED TO THE FOREIGN COMPANY FOR OUTSIDE SALE WOULD HAVE LITTLE IMPACT ON SELF-SUFFICIENCY OR LONG-RANGE DOMESTIC DEMANDS, WOULD APPEAR APPROPRIATE.

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7. IN MAKING THIS APPROACH TO THE GOI THE DEPARTMENT MAY WISH TO HAVE IN MIND THAT, ACCORDING TO RAMASWAMY, PETROLEUM MINISTER

BARMISH AND THE PETROLEUM MINISTRY SELECTION COMMITTEE ARE WELL AWARE THAT THE GOI'S INITIAL POSITION SHUT THE DOOR FULLY ON THE MAJORS AND DISCOURAGED THE LARGE INDEPENDENTS. HE STRESSED, HOWEVER (AS HE HAS TO THE MINATT IN THE PAST), THAT HIS MINISTRY OPERATED UNDER STRICT CABINET ORDERS TO HOLD THE FIRST CONTRACTS

WITHIN THE FRAMEWORK OF THE GOI'S INDUSTRIAL POLICY. (INDEED, RAMASWAMY'S INITIAL GUIDELINES RECEIVED CABINET APPROVAL BEFORE THEY WERE MAILED TO INTERESTED FOREIGN COMPANIES). NO ONE IN THE GOI WANTED TO DEFEND IN PARLIAMENT ANY FORM OF CONTRACT THAT WOULD APPEAR TO POLITICAL OPPONENTS TO HAVE BEEN A "GIVEAWAY". BUT SUBSEQUENT DEVELOPMENTS HAVE ALTERED CONDITIONS SIGNIFICANTLY. THE ENERGY CRISIS, FOREIGN EXCHANGE SHORTAGES, LACK OF LARGE COMPANY INTEREST IN INDIA'S OFFSHORE OIL, AND THE GOI'S INABILITY TO BUY OR RENT A SUFFICIENT NUMBER OF DRCALS THAT MIGHT BE OPERATED BY INDIAN TECHNICIANS HAVE COMBINED TO WEAKEN THE GOI'S BARGAINING POSITION IN OIL EXPLORATION ACCORDING TO RAMASWAMY, THERE IS "EVERY REASON TO ATTEMPT TO FIND A WAY TO JUSTIFY A RELAXATION OF GUIDELINES" -- SIMPLY ON GROUNDS THAT "THEY MUST BE RELAXED IF ANYONE ELSE IS TO BE BROUGHT TO THE NEGOTIATING TABLE".

8. WE HOPE, HOWEVER, THAT THE DEPARTMENT WILL ALSO TAKE UP THE MATTER AGA W WITH THE MAJOR OIL COMPANIES AND CLARIFY SOME OF THE POINTS DISCUSSED ABOVE. WE DON'T KNOW WHETHER THERE IS ANY CURRENT POSSIBILITY OF SUCCESSFUL MAJOR COMPANY PARTICIPATION IN THE INDIAN OFFSHORE AND ON SHORE EXPLORATION PICTURE -- TAKING BOTH ECONOMIC AND POLITICAL CONSIDERATIONS INTO ACCOUNT. WE DO THINK IT IS WORTH LOOKING INTO. IF US COMPANIES WON'T RESPOND, FRENCH, ITALIAN AND OTHER GOVERNMENT-SUPPORTED ORGANIZATIONS ULTIMATELY WILL. OUR MAJORS SHOULD THEN LOOK FOR ANOTHER SHOULDER ON WHICH TO WEEP.
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